Preparation of Eurogroup and Economic and Finance Ministers Council, Luxembourg, 21-22 June 2012

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EUROGROUP, 21 June

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The Eurogroup meeting will start on Thursday, 21 June at 16.00. The European Commission will be represented by Olli Rehn, Vice-President and Commissioner for Economic and Monetary Affairs and the Euro. A press conference is expected to take place after the meeting.

1. IMF Article IV review of the euro area and IMF spill-over report (AAT)

Christine Lagarde, managing director of the IMF, will deliver the concluding statement to the IMF Article IV consultation on the euro area. Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with its members, usually every year. Moreover, Ministers will discuss the second IMF spill-over report that looks at the effects of shocks affecting US, China, Japan, the euro area and the UK on other economies.

This year's discussions with the euro area focused on possible spill-overs from the Sovereign debt crisis, on crisis response and on the measures to restore growth and to safeguard financial stability.

2. Greece: implementation of adjustment programme (AAT)

Ministers will discuss recent political and economic developments in Greece.

The international assistance loans disbursed so far for Greece amount to €147.6 billion. Out of this amount, €73 billion have been disbursed within the first programme (€52.9 billion by euro area Member States and €20.1 billion by the IMF). Under the new programme, the EFSF and the IMF have already disbursed €74.6 billion (including €25 billion for bank recapitalisation) as a part of the first disbursement of the second programme. A remaining €1 billion will be disbursed shortly.

The next disbursement will take place after the next review mission. After the announcement of a new coalition Government, staff of the Troika could be dispatched to Athens in the coming days to carry out an assessment of the implementation of the Programme so far.

The European Commission considers that the new Greek government must assume the historical responsibility of reforming the economy, bringing debt down to sustainable levels and creating the basis for sustainable growth. In that sense, the fiscal and structural reforms set out in the Memorandum of Understanding are the best guarantee for Greece to overcome the current crisis and generate growth and jobs in a sustainable manner. As Vice-President has emphasized in several occasions, the Second Greek Programme is "a solidarity pact between Greece and its 16 partners in the euro area, and the IMF". And it is a chance not to be missed.

The new coalition Government will have to take full ownership of the Programme and implement it fully.

3. Spain: financial assistance (AAT)

On 9 June Spain announced that it intends to seek financial assistance to support the recapitalisation of its banking sector. On the same day, the Eurogroup committed to an amount of up to €100 billion. The financial assistance would be provided by the EFSF and/or the ESM and would be channelled through the Spanish financial backstop, FROB (Fund for Orderly Bank Restructuring).

Upon a formal request, the Commission has been tasked by the Eurogroup to conduct an assessment of the sector - in liaison with the ECB, the EBA and the IMF - to determine whether eligibility criteria are met. Meanwhile, stress tests of the beneficiary financial institutions will be used to determine the degree of distress under different scenarios, financial-sector viability, and the possible amount of assistance required.

As with any financial assistance from the EFSF/ESM, the loans provided will be subject to appropriate conditionality, which, in this case, will be focused on the financial sector, on a bank by bank basis - in compliance with EU State aid rules - as well as on the financial sector and its supervisory framework as a whole.

4. Developments in other selected euro area Member States (Cyprus, Portugal, Ireland) (AAT)

Cyprus

Ministers will discuss recent financial and economic developments in Cyprus. In its recommendation, issued in accordance to Article 126(7) of the Treaty on 13 July 2010, the Council recommended that Cyprus to bring its government deficit below 3% in a credible and sustainable manner by 2012 and to ensure an average fiscal effort in 2011-2012 of at least 1.5% of GDP. The Commission welcomes the ambitious expenditure-driven consolidation strategy adopted by Cyprus.

The Commission's 2012 Spring Forecast projects the fiscal deficit to narrow to 3.4% of GDP in 2012 and 2.5% GDP in 2013. On this basis, and in view of economic activity contracting this year, the government debt-to-GDP ratio will still remain on a rising trend and reach about 76% in 2012. Recognising a slippage of first-quarter 2012 results to the government's deficit target of 2.5% GDP in 2012, the Cypriot authorities announced that they will propose a new package of measures with a fiscal impact of about 1% of GDP for 2012, to be adopted by Parliament by the end of June 2012. The Commission will assess the government proposals and whether they can be expected to ensure the timely correction of the excessive deficit in 2012, as recommended by the Council.

The financial sector in Cyprus has been severely affected by developments in Greece, with banks currently pursuing capital strengthening plans. This strong impact in the Cypriot banking sector is also due to the losses on Greek government bonds under the Private Sector Involvement in the second Programme for Greece and the deterioration of the quality of assets in both Cyprus and Greece. The situation is being closely monitored by the Commission.

Portugal

Vice-President Olli Rehn will inform Ministers on the main outcomes of the recent review mission to Portugal. Staff teams from the Commission, European Central Bank, and International Monetary Fund visited Lisbon during May 22-June 4 for the fourth quarterly review of Portugal's economic programme.

The mission concluded that the programme stays on track amidst continued challenges. Economic activity is holding up better while external adjustment is proceeding faster than expected. By contrast, unemployment has risen faster than expected and is projected to rise further in 2013, reaching almost 16%. The fiscal target of 4.5% of GDP in 2012 remains within reach, even though risks have increased. On the structural side of the programme, the authorities are implementing the reform policies broadly as planned (MEMO/12/405).

Ireland

The Commission is set to finalise the completion of the sixth review of the EU-IMF financial assistance programme for Ireland within the next week.

Growth has returned last year (0.7% of GDP) and the deficit was well below the programme target (9.4% compared to 10.6%). Ireland has also achieved impressive progress towards restructuring and strengthening its banking sector. Deleveraging is progressing as planned and deposits have stabilised. Commission also welcomes the government's intention to come back to the "T-bill market" in the near future.

The EU has provided so far €32 billion of financial assistance under the programme and a further €2.8 billion will be paid following the completion of the sixth review. The next review mission is scheduled to take place in the first half of July.

5. ESM matters (AAT)

Ministers will discuss the progress made in setting-up the European Stability Mechanism (ESM) and the technical work undertaken to ensure the mechanism is fully operational the day it enters into force; to this end, discussions will also include the state of play of the ratification process of the underlying ESM Treaty in national Parliaments. The ESM Treaty will enter into force as soon as participating Member States representing 90% of the authorized capital have submitted their instruments of ratification. The Commission hopes that the ESM can enter into force in July, as foreseen.

6. Miscellaneous (AAT)

a. Stability and Growth Pact implementation: EDP steps for euro area Member States (AAT)

On 30 may the Commission recommended that the Council abrogates the Excessive Deficit Procedures (EDP) for Germany, as foreseen in article 126(12) of the Treaty (please see also relevant point of the ECOFIN).

b. European Semester: euro area aspects (AAT)

Minister will discuss the euro area Recommendations under the European Semester. On 30 May the Commission has adopted a package of proposals concluding the second European Semester of economic policy coordination and giving guidance for national policies in 2012-2013. The package consists of a Communication outlining the main findings and concrete measures to boost economic growth and job creation, as well as of Council Recommendations, one for each Member State, with country-specific guidance on economic policy, such as public finances and structural reforms and one for the euro area as a whole. In the latter the Commission recommends inter alia that euro area Member States strengthen the working method of the Eurogroup, ensure a coherent aggregate fiscal stance by pursuing fiscal consolidation and implement structural reforms in order to promote the unwinding of intra euro area macroeconomic imbalances (IP/12/513).

c. Follow-up to the informal May European Council (AAT)

The emphasis on economic growth has been recently reiterated by the European Council, given the crucial challenge that EU economies are currently facing. In addition to fiscal consolidation and financial stability, it is of utmost importance to set up the conditions for sustainable economic growth across the EU.

The EU economic growth strategy consists of the following three pillars: (i) mobilising EU policies to fully support growth; (ii) stepping up our efforts to finance the economy through investments; and (iii) strengthening job creation.

d. Eurogroup work programme for the second half of 2012 (AAT)

Ministers are expected to endorse the Eurogroup work programme for the second half of 2012.

COUNCIL OF ECONOMIC AND FINANCE MINISTERS (ECOFIN), 22 June

The EU's Council of Economic and Finance Ministers will start on Friday, 22 June at 10.00. The European Commission will be represented by Olli Rehn, Vice President and Commissioner for Economic and Monetary Affairs and the Euro, Michel Barnier, Commissioner for Internal Market and Services and Algirdas Semeta, Commissioner for Taxation and Customs Union, Audit and Anti-Fraud. A press conference is expected to take place after the meeting.

1. Adoption of the "A" points

Report to the European Council on Tax issues (A point) (ET)

The ECOFIN should adopt a report to the European Council, outlining the importance of tax policy at EU level and detailing developments and progress in this area. The report reviews a number of major Commission proposals on the table, such as the Financial Transaction Tax, the Common Consolidated Corporate Tax Base, the Savings Taxation Directive and the Energy Taxation Directive. It also mentions legislation adopted by the Council during the last two years and stresses the importance of further work on tax coordination.

Report to the European Council on Tax issues in the framework of the Euro Plus Pact (A point) (ET)

The ECOFIN should adopt a report to the European Council on tax issues in the framework of the Euro Plus Pact. The report emphasises the importance of work in the coming months on the fight against fraud and tax evasion, and avoidance of harmful tax practices.

Code of Conduct on Business Taxation (A point) (ET)

The ECOFIN is expected to adopt Conclusions on the Report of the Code of Conduct Group on their work under the Danish Presidency. The Code of Conduct Group reports to the ECOFIN on progress achieved by the end of each Presidency. Notably, in this report, the group will feed back on the dialogue initiated with Switzerland, supported by the Commission, to explore the possibility of them applying principles of the Code.

2. Proposal for a Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms (SdR)

On 6 June 2012, the European Commission adopted a proposal for EU-wide rules on bank recovery and resolution. These rules will ensure that in the future authorities will have the means to intervene decisively both before problems occur and early on in the process if they do. Furthermore, if the financial situation of a bank deteriorates beyond repair, the proposal ensures that a bank's critical functions can be rescued while the costs of restructuring and resolving failing banks fall upon the bank's owners and creditors and not on taxpayers.

This proposed system for a system of bank recovery and resolution in Europe is the last in a series of measures (more integrated banking supervision, and a stronger banking system with better bank capitalisation, protected deposits) which together form the foundation on which to go further for building a banking union in Europe - an issue which the Commission hopes the European Council will address at its meeting of June 28-29.

3. Energy Taxation Directive (ET)

Ministers will hold a debate on the proposal to revise the Energy Tax Directive.

On 13 April 2011, the Commission presented a proposal to fundamentally overhaul how energy products in the European Union are taxed (see IP/11/468). The system proposed by the Commission would tax fuels on the basis of their energy and CO2 content, rather than on the basis of volume, as is the case today. Not only would this align the taxation of energy products with the EU's energy and climate change goals, but it would remove the competitive distortions that today result in some of the most polluting fuels being taxed at lower rates than their greener competitors. Moreover, the revision of the Energy Tax Directive can assist Member States that are trying to make a shift away from more distortive taxes (such as labour), to more growth-friendly ones (such as environmental taxes). The proposal will thus help Member States to redesign their overall tax structures in a way that contributes to growth and employment.

4. Financial Transaction Tax (ET)

Ministers will hold an orientation debate on the Commission's proposal for a Financial Transaction Tax, to determine the next steps in taking this project forward at EU level.

On 28 September 2011, the Commission presented a proposal for a financial transaction tax in the EU (see IP/11/1085). The objectives were essentially three-fold. First, an FTT would ensure that the financial sector makes a fair and substantial contribution to public finances. Second, it would complement regulatory measures in creating a more stable financial sector, by discouraging short-term-oriented trading activities and highly-leveraged instruments. And finally, it would deliver substantial revenues to help with consolidation and economic growth efforts, and contribute to wider goals such as development.

The tax would be levied on all transactions in financial instruments when at least one party to the transaction is located in the EU and/or a financial institution established in the EU is involved in the transaction. The trade in securities such as shares and bonds would be taxed at a rate of 0.1% and derivatives at a rate of 0.01%. This could raise around €57 billion every year.

5. Contribution to the European Council meeting on 28-29 June 2012 -

European Semester (AAT)

The European Semester 2012 started with Commission guidance on the policy priorities in the Annual Growth Survey, followed by discussions in Council and Parliament, presentation of Member States' stability or convergence programmes and national reform programmes[1], and the Commission proposals for country-specific recommendations for each Member State on 30 May.

The June ECOFIN and EPSCO Councils will discuss the country-specific recommendations for their endorsement in the June European Council. The semester will be closed by the Council adoption of the recommendations in July. This leads to the "national semester", when Member States draft their budgets and policy plans taking account of the EU guidance (IP/12/513, MEMO/12/386).

The focus of the 2012 European Semester was on assessing progress in the implementation of the 2011 country-specific recommendations. In case the recommendations were not fully followed, the Commission proposed taking further measures. In general, significant progress was made regarding public finances, although the composition of consolidation was not always growth-friendly. The adjustment of macroeconomic imbalances is progressing both in deficit and surplus countries, while the durability of the adjustment needs to be ensured. Implementation of structural reforms has been slow in most countries that have so far not faced market pressures.

With the six-pack in force since end-2011, the Macroeconomic Imbalances Procedure and strengthened fiscal surveillance were applied for the first time during the 2012 European Semester. All recommendations made in the context of the preventive arm of the Macroeconomic Imbalances Procedure are included in the integrated set of country-specific recommendations for the concerned Member States. These include, inter alia, recommendations for correcting high public debt, improving external competitiveness and addressing high unemployment. The six-pack also puts on obligation on the Council to explain its motives in case it modifies the recommendations which the Commission has proposed.

Following the adoption of the recommendations, the Commission will follow-up on the implementation of the reforms on a continuous basis.

i) Ministers will discuss the draft Council Recommendations on the national reform programmes 2012 to each Member State and draft Council Opinions on the updated stability or convergence programmes.

ii) Ministers will discuss the draft Council Recommendation on the implementation of the broad guidelines for the economic policies of the euro area Member States.

6. Implementation of the Stability and Growth Pact (AAT)

a. Council decisions abrogating Excessive Deficit Procedures

On 30 May the Commission recommended that the Council abrogates the Excessive Deficit Procedures (EDP) for Bulgaria and Germany, as foreseen in Article 126(12) of the Treaty.

In March this year, Bulgaria and Germany notified that their 2011 general government deficit was below 3% of GDP. Following the validation of these figures by Eurostat in April, and also taking into account the fact that the Commissions' 2012 spring forecast (IP/12/466) shows that these deficits will remain durably below 3% of GDP, the Commission has concluded that the correction of the excessive deficit for these countries is ensured.

Bulgaria reduced its general government deficit from 3.1% of GDP in 2010 to 2.1% of GDP in 2011. According to the Commission 2012 spring forecast, the deficit is expected to shrink further to 1.9% of GDP in 2012 and 1.7% of GDP in 2013[2].

Germany decreased its general government deficit from 4.3% of GDP in 2010 to 1.0% of GDP in 2011. According to the Commission 2012 spring forecast, the deficit is expected to amount to 0.9% of GDP in 2012 and 0.7% of GDP in 20131.

On the basis of 2012 spring forecast, the Commission made an assessment of the public finance situation in all member States. The Commission will continue monitoring public finance developments that warrant an immediate response, the next key moment to review ongoing EDPs will be in the context of the 2012 autumn forecast.

b. Council Implementing Decision lifting the suspension of commitments from the Cohesion Fund for Hungary

On 30 May the Commission adopted a proposal for a Council decision to lift the suspension of commitments from the Cohesion Fund for Hungary, after concluding that the country has taken the necessary action to correct its excessive deficit, in line with the Council Recommendation of 13 March 2012 (MEMO/12/385).

More specifically, the Commission has concluded that the 2012 budget deficit target of 2.5% of GDP is expected to be reached and the 2013 budget deficit is expected to be well below the 3% of GDP reference value, despite the slight weakening of the macroeconomic environment, as indicated by the Commission in its 2012 spring forecast.

7. Convergence Report from the Commission and the ECB (AAT)

Ministers will exchange views on the Convergence Report that was adopted on 30 May by the Commission (IP/12/553). The report assesses progress with convergence towards the requirements of the Economic and Monetary Union (EMU) in eight Member States (Bulgaria, the Czech Republic, Latvia, Lithuania, Hungary, Poland, Romania and Sweden).

The report concludes that none of the countries examined fulfils all conditions for adopting the euro at this stage, and that there should therefore be no change in their status of 'Member State with a derogation'.

Vice-President Olli Rehn, responsible for Economic and Monetary Affairs and the Euro, said: "The Convergence Report shows that the Member States examined are making some progress towards euro adoption, albeit at different paces. I encourage them to pursue policies that will help them to achieve a high degree of sustainable convergence. Economic convergence allows countries to benefit optimally from the advantages of the single currency and to sail more smoothly in a difficult economic environment. This is clearly in the interest of both the prospective and existing members of the euro area."

8. Follow-up to the G20 Summit (AAT)

On the basis of a debriefing from the Commission, Ministers will discuss the outcome of the G20 Summit that took place in Los Cabos on 18-19 June. G20 Leaders - together with G20 Finance Ministers - adopted the "Los Cabos Action Plan for Growth and Jobs". Moreover, they confirmed and finalised the agreement reached in Washington in April to increase IMF resources, resulting in an overall increase in IMF resources of USD 456 billion. In addition, they discussed further reforms to the International Financial Architecture, stressed the need for a full and timely implementation of the 2010 IMF Quota and Governance Reforms and reaffirmed that financial market reform will remain on top of the G20 agenda going forward.

9. A.O.B.

The presidency will inform about current legislative proposals to further reinforce economic and fiscal surveillance in the euro area, in particular about the so-called "two pack".

On 23 November 2011, the Commission adopted two proposals of regulations - the so-called "two-pack" - to reinforce economic and fiscal surveillance in the euro area. The "two-pack" builds on the "six-pack" that entered into force in December 2011 to strengthen economic governance in the fiscal and macroeconomic field.

The first Regulation of the "two-pack" aims to strengthen budgetary surveillance for euro area Member States and to reinforce the monitoring of those under the Excessive Deficit Procedure. It is also a concrete way to apply some of the commitments of the Treaty on Stability, Coordination and Governance, in particular those of the Fiscal Compact. The second Regulation aligns and better integrates the principles used in providing financial assistance via instruments outside of the Union framework with the EU Treaty framework.

Trilogues with the European Parliament will begin shortly, with a view the ensuring that the legislative process for these two important proposals is completed swiftly. The Commission services stand ready to assist the Cypriot Presidency as it takes on this file.

1 :

Stability programmes are submitted by euro area Member States, convergence programmes by non-euro area Member States. They set out the plans for sustainable public finances. National reform programmes present key policy measures to enhance growth and job creation and reach the Europe 2020 targets.

2 :

The forecast for 2013 is based on the assumption that no further policy measures are taken.

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Eurobeleid

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